

TRUMP KEEPS FOCUS

This week, despite our best efforts, we are again obliged to talk about Donald Trump. Just days after moving in his gaudy gold furniture into the White House Trump has dispelled any ideas that he might become more moderate. The first country to be destabilised by a tweet has been Mexico, who look to be the first casualties in the upcoming trade war, as boarder taxes and walls seriously shake a country that relies on US trade for most of their economic growth.

It will soon be our turn; Mrs May heads to the US with the honour of being the first foreign leader to meet with the new president, although one gets the impression she stood still while everyone else took a step back. With the prime minister desperate for US trade to make up the shortfall after we leave the EU, it would be more promising if she weren't dealing with someone who literally wrote the book on screwing over negotiating partners.

THE MARKETS THIS WEEK

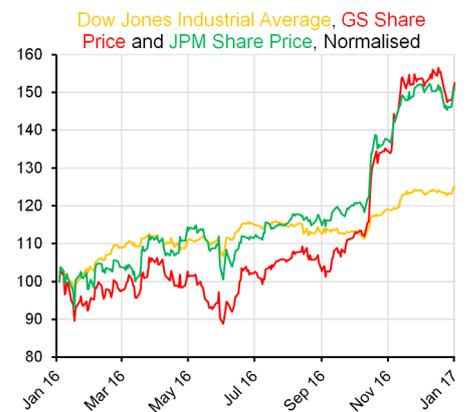
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 500	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-0.44%	+1.46%	+1.72%	+0.11%	+2.07%	+0.05%	+0.06%	+0.62%	-2.15%	-0.53%	+1.32%

US: DOW JONES - 40,000 NEXT

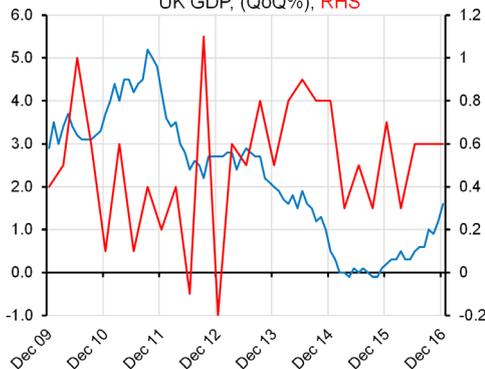


The Dow Jones industrial average climbed 1,000 points in 42 days, to reach 20,000 for the first time ever on Wednesday. Despite other indices including, S&P 500 and the Nasdaq, also reaching new highs the media have focused on this increase. The excitement surrounding the Dow is perhaps unjustified given the S&P 500 is a much better indicator of strength in the US stock market. The Dow comprises 30 of the largest blue chip companies and over half of the Dow's rise since the beginnings of November can be attributed to just five stocks; Goldman Sachs Group, IBM, Boeing, United Health and JPMorgan Chase. In fact, Goldman Sachs contributed to 30 per cent of the 1,000-point gain.

It is not surprising that the Dow continues to climb as the index measures companies by their share price rather than market capitalisation, resulting in the best performing stocks having the largest effect on the index. This obscure measure results in Goldman accounting for 8 times the weighting of General Electric, which has around three times the market capital. This significant financial overweight has pulled the index to this new (deemed) significant level.



UK Harmonised CPI, (YoY%), LHS and UK GDP, (QoQ%), RHS



UK: GDP BRINGS JOY

Growth in the UK dropped from 2.2 per cent in 2015 to 2 per cent in 2016, according to preliminary data from the Office for National Statistics. Despite this drop the GDP figure means that the UK was the fastest growing economy in 2016 within the G7 (the G7 represents the 7 major advanced economies in the world). Strong consumer spending within the services sector was a big driver towards the GDP figure. The services sector accounts for 80 per cent of UK economic activity with retail and wholesale trade, travel and health services and auto trade providing the largest stimulus.

Some are using this figure to claim predictions for slower growth as a result of the decision to leave the European Union are unfounded; however, the increase in consumer spending is unlikely to continue. Rising inflation from the decline of sterling and the increase in the oil price will hit spending in 2017. December brought a steep decline for retail sales, which may signify the beginning of the frugal consumer.

EM: BOND RUSH



Emerging market governments are selling debt at an almost record pace. January brought three straight weeks of inflows to emerging market debt funds. This is largely due to rising interest rates in the US and Trump's protectionist policies threatening developing markets. A staggering \$26.4bn worth of debt was sold in January, a near miss of the record high of \$28.6bn for the same month in 2014. The danger with dollar denominated debt is that if the dollar continues to strengthen emerging market governments are going to have pay larger amounts back to their investors.

Argentina topped the charts with \$7bn worth of bonds issued the day before Trump's inauguration last week. Argentina's finance minister, Luis Caputo, commented, "we have to reduce the level of uncertainty, the right decision is to minimise financing risks". As well as this some emerging market corporate issuers wanted to get in on the action. Argentina's current account deficit as a percentage of GDP increased substantially in 2016 and economists expect this to continue for at least the next two years.

